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SUBJECT: BULGARIA'S SOCIALIST PARTY: SOCIAL DEMOCRATS OR
CLOSET COMMUNISTS?

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Classified By: Ambassador James Pardew, reasons 1.4(b) and (d).

11. (C) SUMMARY. If opinion polls are correct, the Bulgarian Socialist Party (BSP) is likely to play a leading role in the next government. Street protests drove the last BSP government from power in 1997 amid hyper-inflation and the collapse of the banking system. More than eight years later, many still question whether the BSP is truly reformed or has sufficient qualified personnel to run the government. While the rhetoric of the party leadership is pro-European and pro-NATO, polls show that much of the party rank and file is suspicious of both NATO and the United States. That said, the BSP is unlikely to make any abrupt changes in Bulgarian foreign and economic policy if the party comes to power. They will, however, be more difficult for us to work with than the current government, looking to Brussels and European Socialists rather than Washington for guidance on most issues. On economic policy, the BSP is hemmed in by an IMF stand-by agreement, a currency board and impending membership in the European Union. Political relations with Russia will likely become warmer in a BSP government, and Russian economic interests may gain ground. END SUMMARY.

SOCIALISTS AHEAD, BUT HOW FAR?

12. (SBU) Polls show the Bulgarian Socialist Party winning 22 to 27 percent of the popular vote in the June 25 election, which under Bulgaria's proportional system will give them at least a plurality in the next National Assembly. If the actual vote is toward the high end of this range and overall turnout is low, the Socialists could win an absolute majority in the 240-seat parliament. However, at this point in the campaign, most observers say the Socialists are unlikely to win an absolute majority. A somewhat more likely outcome is for the Socialists to fall short of a majority and seek to form a center-left coalition government with one of the two parties currently in power: the National Movement Simeon II (NMSS) or the mainly ethnic-Turkish Movement for Rights and Freedoms (MRF). A third possible scenario -- a center-right coalition built around the NMSS -- is less likely, but still possible if the right does better than current polling indicates (septel).

13. (SBU) The victory of former king Simeon Saxe-Coburg Gotha's centrist NMSS in the 2001 election shattered what had become a de facto two-party system in Bulgaria pitting ex-Communists against anti-Communists. The latter, symbolized by the once-powerful Union of Democratic Forces (UDF), is currently riven by infighting that risks making it irrelevant in the coming elections. At the same time, a weak party organization and the tendency of the Bulgarian electorate to punish the incumbent will make it extremely difficult for Simeon to pull off a repeat of his 2001 performance. Taken together, uncertainty about voter turnout, disarray within the right, and the unpredictable nature of support for the ex-king make it difficult to foresee the outcome of these elections.

A BIFURCATED PARTY

14. (C) Critics of the BSP assert that the current moderate leadership of the party is simply a front for hard-liners and former members of the Communist-era security services. While both are certainly present within the BSP, most neutral observers believe their influence is exaggerated by the party's opponents. Georgi Purvanov, the previous leader of the BSP and now Bulgaria's President, turned the party decisively toward the West when he was in charge. Though no longer formally a member, his influence over the party continues to be strong. Purvanov's protege and current party chairman, 38 year-old Sergei Stanishev, epitomizes the reformist wing of the party. The economic policies outlined in his keynote speech to the annual party congress closely mirror current policies: a more favorable business climate, continued economic restructuring, low budget deficits, zero taxes on dividends, and maintaining the currency board. Yet even as he laid out his economic policy, Stanishev repeatedly referred to the Congress delegates as "comrades."

15. (C) Stanishev's use of the term "comrade" illustrates the bifurcated nature of the Bulgarian Socialist Party. Many of its core supporters are elderly pensioners who have lost ground economically since the fall of communism. Moreover, unlike similar parties in Poland and other central European countries, the Bulgarian Communist Party never split into separate social democratic and communist organizations; it simply changed its name. While the social democrats appear to have the upper hand in the BSP, it is still a "big-tent" party that must please its hard-line faction, if only by addressing them as "comrades." An equally serious split exists between young technocrats and older professional politicians, leading many Bulgarians to question the competency of the BSP to run a 21st-century government on the verge of EU membership. "The BSP simply does not have enough trained personnel to govern alone," is a frequently heard refrain.

IMPACT ON U.S. INTERESTS

16. (C) Bulgaria is firmly in NATO and on the path to membership in the European Union. The leadership of the BSP supports a U.S. military presence in Bulgaria in principle, although negotiations of a U.S. presence will be much tougher with a BSP-led government. On the economic side, the Socialists have said they will stick to the IMF stand-by agreement and maintain the currency board. In short, Bulgaria's general strategic orientation toward the West is clear and unlikely to change. Yet within these broad confines, the Socialists -- if elected -- will likely be far more difficult for us to work with than the current government. The party's Jurassic minority will oppose U.S. interests, but it would be wrong to overestimate their influence on the current leadership and especially President Purvanov. Yet even the most reform-minded members of the leadership take their cues not from Washington or London, but from Brussels, Strasbourg, Berlin and Moscow. Stanishev himself looks almost reflexively to the Socialist International and the Party of European Socialists for developing his party platform and drafting major policy speeches. There are, unfortunately, few true Atlanticists in the BSP.

17. (C) On Iraq, Stanishev has told his electorate that he will pull Bulgarian troops out of Iraq as soon as the BSP takes power. However, some of the most powerful insiders in the party, including those around Purvanov, dismiss Stanishev's promise as pre-election hyperbole. They say that there will be no abrupt pullout after the election. Instead, Purvanov's position -- and that of the current government -- that Bulgaria should withdraw its forces at the end of the year will prevail. According to these sources, the BSP cannot afford to begin its mandate with an act that would be widely perceived as irresponsible. On the contrary, the BSP needs to demonstrate that it is a responsible and predictable actor on the international stage.

18. (C) Russia's influence over the BSP is hard to gauge. Out of habit, most BSP leaders probably feel more at home with Russians than with Americans. But this is as much due to the limited contact between the BSP and the U.S. prior to the reformists' ascent than to any lingering ideological affinity for Russia. We now have excellent contacts within the BSP at all levels. Nevertheless, for historical as well as cultural reasons, there are far more Russophiles in Bulgaria than there are in, for example, Poland or the Czech Republic. On the political level, relations with Russia would likely become warmer.

19. (C) The one area where Russia's influence is likely to grow if the BSP takes power is in the economy. Most Bulgarian companies with Russian business ties are aligned with the BSP, especially in the energy sector. The Bulgarian subsidiary of LukOil -- which pays some 20 percent of all the taxes collected in Bulgaria -- is reportedly a BSP sponsor. Similarly, Risk Engineering, the leading Bulgarian firm in the nuclear power sector, is closely tied in with Russian business interests. Beyond this, there are a whole series of "Red businesses" whose owners became wealthy by stripping the assets of state-owned industries during the previous Socialist government, and who still owe a debt of gratitude to the BSP.

110. (C) A Socialist government will not resolve corruption issues in Bulgaria and could make matters worse as old habits die hard. However, pressure from the European Union will almost certainly lead to some kind of judicial reform, regardless of who wins the election. The Socialist have made judicial reform and the fight against organized crime a center-piece of their campaign, but it is difficult to judge their sincerity. In any case, we doubt there will be a dramatic change in either direction under a BSP-led government.

11. (C) The Socialists appear to have learned from the economic mistakes of the Videnov government, when street protests drove the Socialists from power after they ran the economy into the ground. Under a BSP-led government, there would likely be a greater emphasis on social welfare and state-sector solutions to social problems, but still within the confines of stable fiscal and monetary policies. Privatization of the few remaining state-owned companies might slow, but fiscal reality should prevail in the long run -- the government simply cannot afford to keep money-losing companies on the books forever. Stanishev has emphasized to us that the BSP can not afford another failed government.

COMMENT

12. (C) If the Socialists come to power, a radical shift in the direction of the country is unlikely, although promotion of U.S. policy in Bulgaria will become far more difficult with a BSP-led government. The U.S. can influence the outcome of the current election campaign only at the margins. We are funding a get-out-the-vote campaign by the National Democratic Institute (NDI), which many believe will primarily assist the center-right. We are also looking for ways to demonstrate that the current government's close relations with the U.S. have paid off (reftel), and thereby help improve its results on election day. Regardless of these efforts, the NMSS may well be the underdog on election day. However, if the Socialists end up forming a coalition government with the NMSS -- a scenario that many Bulgarians believe is likely -- the participation of the ex-king's party will have a moderating effect on the any BSP-led government. Beyond this, we will continue to engage the moderates around Stanishev and the President and try, to the extent we can, to isolate the hard-liners within the BSP.